only $1,909, or one-fifth the U.S. average. 2/ In 1982, there were 6,615 establishments producing textile products with average sales of $7.2 million. In contrast, the 24,313 apparel establishments had average sales of only $2.2 million.

Most textile and apparel workers are relatively unskilled, and their average wage rates are substantially below those of workers in other domestic manufacturing industries. In 1984, hourly compensation for textile workers was 66 percent of the average for all manufacturing employees; apparel workers made only 55 percent of the average for all employees. Nevertheless, hourly compensation in major textile and apparel exporting countries are 12 percent to 25 percent of those in the United States. 3/ This difference is compensated to some extent by the higher productivity of domestic workers.

Level of Imports

The higher labor productivity in manufacturing synthetic textiles partly explains the domestic industry's relatively strong performance in markets for those products. In addition, firms in the United States were in the forefront of large-scale production of synthetic fibers and synthetic blends. The greater success of foreign producers in penetrating domestic apparel markets stems from the more labor-intensive production process coupled with the substantially lower wages that prevail in developing economies.

In 1971, the share of imported products measured in pounds of both cotton and synthetic textile products (which includes apparel) was 10 percent. 4/ 5/ Foreign producers' share of cotton textile products has increased

2. *Statistical Abstract of the United States 1985*, pp. 413, 525, and U.S. Department of Commerce, unpublished data.

3. Unpublished data from the Bureau of Labor Statistics, U.S. Department of Labor.

4. The share data are based on apparent supply, which is defined as domestic production plus imports and is expressed in pounds. See U.S. Department of Commerce, International Trade Administration, Office of Textiles and Apparel, *U.S. Production, Imports, and Import/Production Ratios for Cotton, Wool and Man-Made Fiber Textiles and Apparel* (Washington, D.C.: March 1985).

5. Much of the data that is used in this analysis is based on mill consumption of fiber--that is, on the inputs into the production of textiles. In this form, the data do not distinguish between the end products, such as apparel and home furnishings. Thus, the term "textile products" includes both textiles and apparel. Since many fabrics are blends, the distinction between synthetic and cotton textile products are not strictly accurate.

more or less steadily since then, and by 1984 it had captured 35 percent of the market (see Table 1). The rising import penetration of cotton textile products resulted from an increase in imports as well as a fall in domestic production (see Figure 1).

Imports of synthetic textile products almost quadrupled between 1967 and 1972. During the rest of the 1970s, imports fluctuated with the business cycle, but in no year did they significantly exceed the 1972 peak. In the meanwhile, domestic production moved upward. As a result, the share of imports remained well below 10 percent between 1972 and 1980. During this period, however, the mix of imported products shifted toward higher priced and presumably higher quality products. Imports of synthetic textile products increased significantly in the 1980s as the dollar appreciated and foreign producers became more successful in producing blended fabrics of a quality more comparable to domestic output. In addition, domestic production declined slightly. Nevertheless, in 1984, the imported share of the apparent supply of synthetic textile products was roughly 40 percent of the level of cotton textile products. [6]

Unrestricted trade may affect even those segments of the textile industry that are relatively efficient--specifically, manufacturers of blended fabrics. The bulk of imported apparel is made from textiles produced abroad; increased imports of apparel thereby affect the domestic textile as well as apparel industries. Moreover, the foreign share of apparel markets has increased much more rapidly than that of textiles and in 1984 was more than three times as great.

Despite the increased imports, neither the textile nor apparel industries has contracted appreciably between 1972 and 1984. Output of the apparel industry in 1984 was only 6 percent lower than it had been in 1972 and higher than it had been in half of the intervening years. [7] Domestic production of textiles in 1984 was less than 1 percent lower than it had been in 1972. It was, however, 10 percent lower than its peak year in 1979.

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6. At 36.8 percent, the imported share of the supply of wool products is even higher than its share of cotton supply. Wool, however, accounts for only 3 percent of domestic textile consumption.

7. See testimony of Walter Lenahan, Deputy Assistant Secretary, Department of Commerce, before the Subcommittee on Commerce, Consumer, and Monetary Affairs of the Committee on Government Operations, March 6, 1985.

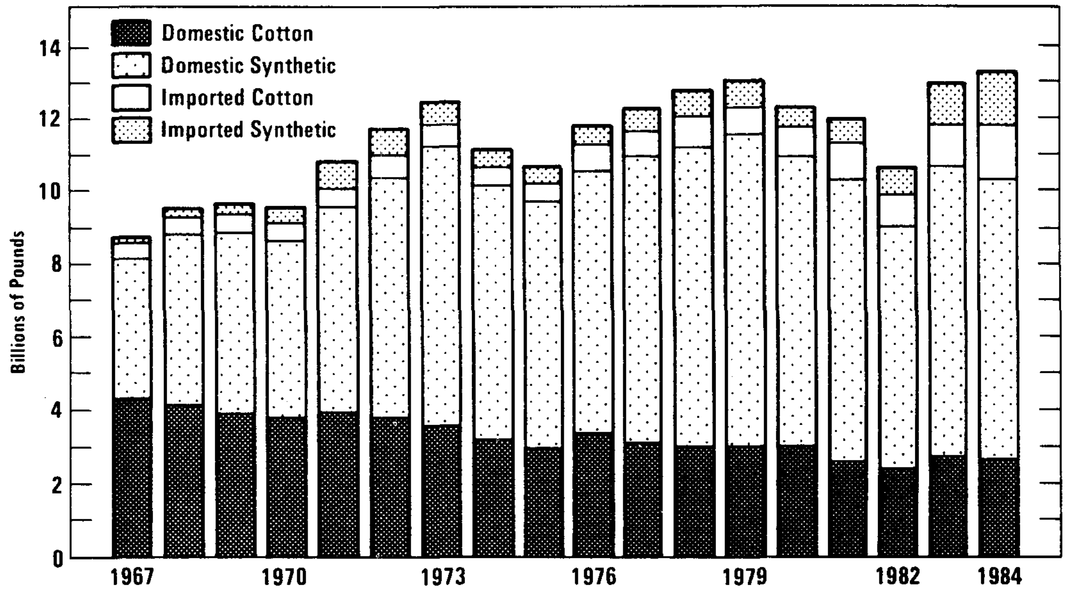
TABLE 1. IMPORT SHARES OF TEXTILE SUPPLY (In percents)

Year	By Product and Measured in Value a/		By Material and Measured in Pounds			
	Textile	Apparel	Cotton	Synthetics	Wool	Total
1972	4.6	6.6	13.6	9.9	19.7	11.5
1973	4.4	7.0	13.3	7.6	19.9	9.8
1974	4.1	7.4	13.2	6.4	20.4	8.9
1975	3.4	8.1	14.2	6.5	17.9	9.2
1976	3.7	10.1	17.2	7.3	22.3	11.0
1977	3.5	9.8	17.4	7.6	28.8	11.1
1978	4.2	11.8	21.8	8.1	30.3	12.6
1979	3.9	12.1	19.6	7.8	27.8	11.6
1980	4.1	12.5	20.9	6.6	26.3	11.5
1981	4.7	13.5	26.2	8.0	27.3	13.9
1982	4.4	13.6	26.7	9.9	32.4	15.6
1983	4.6	15.1	28.8	12.4	33.5	17.8
1984	5.9	19.9	35.1	15.8	36.8	22.3

SOURCE: Congressional Budget Office based on data from the Department of Commerce.

a. The import shares are based on the dollar values of shipments at the two-digit, Standard Industry Classification level and the dollar values of imports. The values of domestic shipments are overstated and thus, the product import shares are understated. This discrepancy occurs because some output is counted twice and some imports are reported as domestic shipments. Nevertheless, the data provide a good indication of the trends in imports' shares of domestic supply.

Figure 1.
Cotton and Synthetic Textile Products (Domestic Production and Imports)



SOURCE: Congressional Budget Office based on data supplied by Department of Commerce.

THE EVOLUTION OF PROTECTION IN THE TEXTILES AND APPAREL INDUSTRIES

Since quotas were imposed on Japanese cotton textiles in the 1950s, the level of protection has ratcheted steadily upward to include an increasing number of exporting countries and a growing variety of textile and apparel products. 8/ Beginning in 1974, textile and apparel quotas have been administered under guidelines established in the Multifiber Arrangement (MFA). Rather than being an entirely new creation, the MFA was an extension of the diverse bilateral agreements that preceded it. The precise goals in developing these agreements, however, were not always clear.

8. This section draws heavily on the following sources: D. Keesing and M. Wolf, *Textile Quotas Against Developing Countries* (London: Trade Policy Research Centre, 1980); U.S. International Trade Commission, *The Multifiber Arrangement, 1980-84*, Publication 1693 (Washington, D.C.: ITC, May 1985); "Protecting the Textile and Apparel Industries," Staff Working Paper, Congressional Budget Office, September 1985; D. Curzon and others, *MFA Forever?* (London: Trade Policy Research Centre, 1981).

The Goals of Protection

Since protection in the textile and apparel industries evolved administratively over a period of 30 years, its precise goals are not always easy to identify. It is entirely plausible that the goals changed over the years and that policymakers at any particular time did not share a common objective. Nonetheless, it is possible to distinguish between three broad--and often inconsistent--views of what protection was meant to do.

In one view, protection was meant to be a temporary measure, which would cease to be necessary once U.S. producers found a means of meeting foreign competition. It is difficult, however, to show that this was what was intended when the industries were first protected or at any subsequent point. One might note, however, that President Kennedy's initial decision to seek a multilateral forum to control textile trade was part of a seven-point program that, among other things, was designed to increase the industries' competitiveness. 9/

A second possible goal of protection--one that was articulated in the philosophy of the MFA--was to give the industries time to adjust to the growth of imports. Rather than revitalizing the textile and apparel industries in the developed countries, the MFA is designed to allow them to contract in a more orderly fashion than they would in a free trade environment.

A third possible goal is permanent protection. Although the various bilateral restraint and multilateral agreements have specific expiration dates, they are inevitably renewed. As a consequence, for all practical purposes, the agreements have become permanent, which is undoubtedly what many segments of the industry sought. 10/ This goal has apparently gained additional supporters. The Trade and Textile Enforcement Act of 1985, which was vetoed by President Reagan, placed tighter and more permanent restrictions on textile and apparel trade than does the MFA.

The Long-Term Agreement

Spurred by rising imports and the filing of a number of "escape clause" petitions, the United States negotiated voluntary export restraints with

9. See International Trade Commission, *The History and Current Status of the Multifiber Arrangement*, Publication 850 (Washington, D.C.: ITC, January 1978), p. 7.

10. See, for example, R. Buford Brandes, *The Making of Textile Trade Policy 1935-1981* (Washington, D.C.: American Textile Manufacturers Institute, 1982).

Japan for cotton textiles in 1956. The U.S. action was in part a response to domestic price supports for cotton that required domestic producers to pay in excess of world cotton prices. This reduction of imports from Japan, however, encouraged firms in Korea, Hong Kong, and Taiwan to increase their shipments of textiles to the United States. Consequently, the United States called a conference of textile importing and exporting countries, under the auspices of the General Agreement on Tariffs and Trade. This meeting resulted in the Short-Term Agreement Regarding International Trade in Cotton Textiles, which was adopted in 1961 and established rules to limit imports of specific categories of textiles to prevent undue disruption of established industries.

In 1962, this agreement was replaced, with some revisions, by the Long-Term Agreement (LTA). Under the LTA, in situations of market disruption, bilateral agreements could be negotiated to restrict imports of specific products. Market disruption was said to occur if all the following took place: (a) rapid growth in imports of a given product; (b) prices substantially below those for domestic substitutes; and (c) serious damage (actual or threatened) to domestic producers. Such restraints were to be temporary and to be set at no less than the previous year's import level. Moreover, the agreements were to allow the quotas to grow at an annual rate of at least 5 percent. By 1972, the United States had negotiated 30 bilateral agreements under the LTA.

The LTA provided, however, only limited protection. First, source switching remained a problem; it was not until the end of the 1960s that all the significant suppliers of cotton textiles were subject to restraint. 11/ But a more important reason for its ineffectiveness was the rapid growth of synthetic textile products. Articles of clothing or fabric that contained less than 50 percent cotton (by weight or value) were exempt from LTA regulation. U.S. imports of man-made fiber goods increased tenfold between 1960 and 1970, at which time imports of man-made textile and apparel products exceeded imports of cotton. Products of synthetic fibers are good substitutes for those made with cotton, and this substitution limited the benefit of the LTA to the industry.

The Multifiber Arrangement

In 1971 and 1972, the United States negotiated bilateral "voluntary" export restraint agreements for synthetic textile products, as well as wool, with

11. Andrew Loewinger, "Textile and Apparel Trade," in Gary Hufbauer, ed., *U.S. International Economic Policy 1981: A Draft Report* (Washington, D.C.: International Law Institute, 1982), pp. 6-7.

the major exporters--Japan, Hong Kong, Korea, and Taiwan. These agreements ultimately led to the adoption of the Arrangement Regarding International Trade in Textiles, also known as the Multifiber Arrangement (MFA).[12] The MFA, which came into effect in 1974, established a set of rules by which developed countries could regulate imports of textiles and apparel made of cotton, wool, and man-made fiber. It has been renewed three times, most recently in 1986 when products of silk, linen, and ramie were, for the first time, included in the arrangement. Under the guidelines of the MFA, the United States has negotiated bilateral agreements with 35 countries.

Like the previous agreements, the MFA was the subject of negotiation and compromise between countries whose interests were frequently in direct conflict. Exporting countries sought consistent and predictable access to markets in developed countries, while importing countries wished to protect domestic producers of textiles and apparel and their employees. Under the MFA, countries may restrain imports of such products under conditions that could be classified as causing or threatening "market disruption."[13] Restraints take the form of renewable, temporary bilateral agreements (or, occasionally, unilateral restrictions) governing the exports of specific categories of products from individual countries.

While allowing countries to limit textile and apparel imports, the MFA includes provisions that ensure market access for exporting countries. For example, under the original MFA, the quotas were flexible--within specified limits countries could shift unused quota rights in one category to a filled category. They could also borrow quota rights from future years as well as use unused quota rights from previous years. In addition, the quotas were required to grow by not less than 6 percent per year, which is much higher than the demand could be expected to grow in the importing countries. In the two subsequent extensions of the MFA, however, the provisions favorable to exporters were tightened for the largest suppliers. For these countries, restraints may now be invoked under much more relaxed conditions, and agreements need not contain liberal flexibility or growth provisions.

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12. The complete text of the Multifiber Arrangement and some subsequent amendments may be found in International Trade Commission, *The Multifiber Arrangement, 1980-84*, Appendix A. A useful history of the Arrangement may be found in Organization for Economic Cooperation and Development, *Textile and Clothing Industries* (Paris: OECD, 1983), Annex III.

13. The text of the agreement, along with subsequent protocols of extension, is contained in International Trade Commission, *The Multifiber Arrangement, 1980-84*, Appendix A.

Other Features of Protection

In addition to the existence of the multilateral agreement, protection in the textile and apparel industries is unique in several other important respects. First, although each increment in protection was initially considered to be temporary, protection of textiles and apparel has been allowed to lapse (or even be relaxed) in very few instances, and has by now achieved a quasi-permanent character.

Second, the system of textile and apparel protection, as it has evolved over the past 30 years, is significantly more complicated in its operation than protection in other industries. Restrictions take the form of fixed limits on certain products, flexible export limits on other products, and limits on aggregate exports at several different levels. A summary of the quotas by product and country requires almost 170 pages. [14]

Finally, in addition to quantitative restrictions, textiles and apparel have the highest tariff protection of any manufacturing sector. The two industries have been less affected by previous rounds of multilateral tariff reductions than other industries. In 1983, the average trade-weighted tariff rate was 21.3 percent for textile and apparel as compared with 5.5 percent for all dutiable imports. Tariff rates are highest for apparel and products of man-made fibers.

THE EFFECT OF THE MFA ON IMPORTS

By increasing the types of products that could be covered by restraint agreements, the MFA permitted a significant tightening of restrictions on imports of textile products. As has been previously noted, four major exporting countries of synthetic textile products agreed to limit their shipments to the United States several years before the MFA was ratified in 1974. These agreements were retroactive to October 1971. Nevertheless, the restraint agreements did not have much effect on imports of textile products of man-made fibers through the 1970s. In fact, they seemed to have a larger effect on imports of cotton textile products, most notably apparel. With the surge of imports in the 1980s, the agreements began to restrain a wider set of products including an increasing number of apparel items of man-made fibers.

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14. See "Summary of Agreements," International Trade Administration, U.S. Department of Commerce, May 1985. As one group of authorities on the MFA put it, "the (system of textile protection) is so opaque that...informed public debate is virtually precluded." Curzon and others, *MFA Forever?* p. 29.

The 1972-1980 Period

Imports of textiles and apparel declined significantly around the time that the United States extended its protective net beyond cotton products. Between 1972 and 1975, imports of man-made fiber textile products fell by 42 percent and imports of cotton textile products declined by 31 percent (see Figures 2 and 3). The newly negotiated agreements, however, contributed little to this decline.

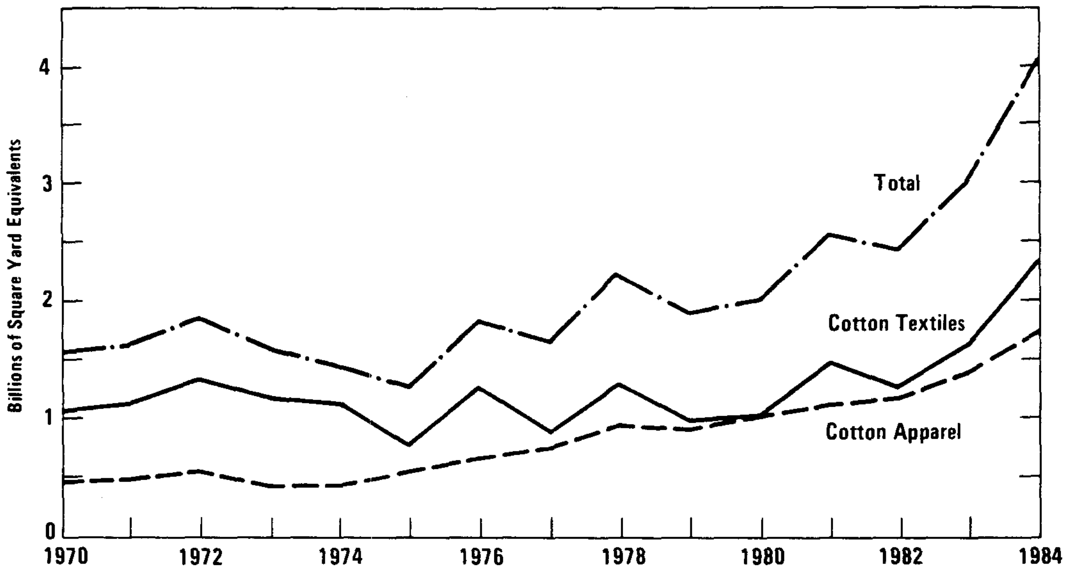
Textiles. The bulk of the decrease in synthetic textile products, as well as a large share of the drop in cotton textile products, was accounted for by a precipitous fall in imports from Europe, which have never been covered by quotas. In addition, imports of synthetics from Japan declined by nearly 40 percent; the quotas that were negotiated with the Japanese largely limited future growth and did not require such substantial reductions in exports to the United States. Even imports of man-made fiber textile products from Hong Kong, Korea, and Taiwan were 14 percent lower in 1975 than they had been in 1972.

The import surge of the early 1970s was the result of an increased demand for fabrics of synthetic fibers; at the same time that imports were expanding, domestic output increased at an average annual rate of 12 percent between 1967 and 1972. In fact, the increase in the quantity of domestic production of synthetic textiles products during this period was five times as large as the increase in the quantity of imports. The combination of additional domestic capacity, a recession-induced decline in demand, and the devaluation of the dollar were apparently the major factors behind the precipitous drop in imports. Imports increased between 1975 and 1977 and then declined so that the quantity of imports of man-made fiber textiles was roughly the same in 1980 as it had been in 1975. Further depreciation of the dollar in 1978 and 1979 undoubtedly contributed to the decline. It was not until 1984 that the quantity of synthetic textile products reached the levels that had prevailed in the early 1970s. Overall, the restraint agreements did not significantly reduce the level of synthetic textile imports.

The decline in cotton textile imports between 1972 and 1975 was also largely the result of a decline in shipments of yarns and fabrics. Unlike the case of synthetics, this decline proved to be transitory. By 1976, imports of cotton textiles had rebounded to levels near what they had been in 1972.[15] Nevertheless, it was not until 1981, that imports of cotton tex-

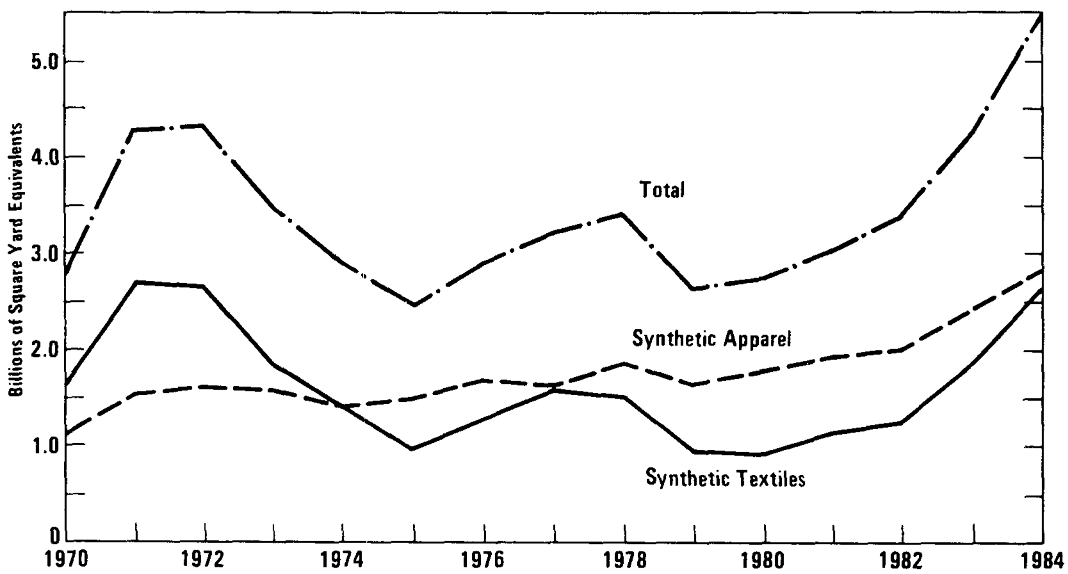
15. Imports of textile products include apparel, yarn, fabric, made-ups, and industrial products. Made-ups are primarily household furnishings such as sheets and towels. In 1972, made-ups accounted for 12 percent of cotton imports, yet only 3 percent of synthetic textile imports.

Figure 2.
Imports of Cotton Textile Products (By Product Type)



SOURCE: Congressional Budget Office based on data supplied by the International Trade Commission.

Figure 3.
Imports of Synthetic Textile Products (By Product Type)



SOURCE: Congressional Budget Office based on data supplied by the International Trade Commission.

tiles exceeded the levels of 1972. One indication of competitiveness in the textile industry is that, between 1975 and 1980, the value of domestic exports of textile mill products (SIC 22) exceeded that of imports.

Apparel. The restraint agreements apparently had a larger impact on imports of apparel products, most notably those of cotton. Between 1972 and 1980, imports of cotton apparel grew at an annual average rate of 7.9 percent, while apparel of man-made fibers grew by only slightly more than 1 percent per year. 16/ The relatively rapid growth in cotton apparel imports suggests that the MFA provided room for significant expansion. 17/ Moreover, the substantial disparity between the growth rates of apparel made from cotton and man-made fibers suggests that the MFA was not a significant factor in limiting imports of apparel made from synthetic fabrics. Since apparel made with different fibers compete with one another, the slack in the synthetic apparel quotas limited the impact of the quotas on the cotton apparel markets.

Comparing the growth rates of imports from the "Big Three" (Hong Kong, Korea, and Taiwan) with other countries provides further evidence that the quotas restrained imports of apparel made of cotton but not of man-made fibers. The MFA should have had its greatest impact on imports from these large exporters of textile products to the United States, which were among the first to have restraint agreements covering synthetic textile products.

Under the MFA, the United States can restrict imports from a country if there has been a market disruption, but the restraints are generally limited to the particular products involved. For some of the larger countries, however, the United States has negotiated limits on total imports. In the initial years of an agreement, a country's shipments of a restrained

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16. Most synthetic fibers are used in blends with cotton. Textile products are classified as being either synthetic or cotton depending on which is the principal fabric based on value. Firms may adjust the fabric content of their output to gain maximum use of the quotas. Moreover, there were some apparel products of synthetic fibers from some countries that were restrained.

17. Cotton apparel imports declined by 20 percent in 1973 and remained at the same level in 1974. Thus, between 1974 and 1980, imports of cotton apparel increased at an average annual rate of 14.4 percent. Apparel of man-made fibers fell by 10 percent between 1972 and 1974 and then grew at annual average rate of 3.7 percent between 1974 and 1980. They were four percent lower in 1980 than they had been in 1978, the peak import year during this period.

product to the United States are generally permitted to increase in excess of the long-term quota growth rate of 6 percent per year. In contrast, restrained products from larger exporters are frequently permitted to grow at significantly slower rates. If the restraints are binding, therefore, imports from the Big Three should grow less rapidly than imports from other sources.

Between 1973 and 1980, cotton apparel imports from Hong Kong, Korea, and Taiwan grew at an average rate of 8.1 percent compared with an 18 percent annual increase from other countries (see Table 2). In the case of apparel of man-made fibers, imports from the Big Three increased at an average annual rate of 5.2 percent during this period, while imports from other sources declined. The slower growth of Big Three cotton apparel imports compared with cotton apparel imports of other countries supports the conclusion that their imports were constrained. On the other hand, the quotas apparently had a much smaller effect on apparel imports made of synthetic fibers. 18/

The Post-1980 Period

The domestic industry was in the forefront of developing cotton-synthetic textile blends, and it competed successfully in world textile markets throughout the 1970s. As previously noted, the United States ran a trade surplus in textiles (but not apparel) during much of this period. With the dissemination of the technology for producing synthetic fabrics, the quality of textiles produced by firms in developing countries improved, and they achieved increasing acceptance by domestic consumers. The appreciation of the dollar also aided exporters to the United States. Consequently, the growth rate of imports of textile products accelerated to an average annual rate of 19 percent between 1980 and 1984. 19/ Imports of textiles of man-

18. See Morris Morkre, *Import Quotas on Textiles: The Welfare Effects of United States Restrictions on Hong Kong*, Bureau of Economics Staff Report to the Federal Trade Commission (Washington, D.C.: FTC, August 1984). This study reports, for example, that there was a positive quota price for women's blouses of man-made fiber in Hong Kong during 1980; the other eight quota prices considered were for cotton apparel products.

19. For both fabrics, imports were higher in 1978 than in 1980; imports of synthetic textile products fell by a greater amount. The average annual growth rates between 1978 and 1984 were 10.7 percent in the case of cotton and 8.4 percent in the case of synthetic textile products. See International Trade Commission, *U.S. Imports of Textile and Apparel Products under the Multifiber Arrangement, 1981-1984*, Publication 1767 (Washington, D.C.: ITC, October 1985). For a discussion of the impact of MFA quotas on particular products in 1980 and 1983, see International Trade Commission, *The Multifiber Arrangement*, pp. 57-72.

made fibers grew at an average annual rate of 29 percent, while apparel imports of man-made fibers grew by 12 percent per year. Imports of cotton textiles and apparel increased at average annual rates of 23 percent and 15 percent, respectively.

The rapid increase in imports during the 1980s provides further evidence that the quotas did not provide significant protection during the 1970s. If the quotas had been binding then, the subsequent growth of imports during the 1980s could not have been as rapid. Moreover, the rate of growth of Big Three imports, while greater than it had been in the 1970s, lagged the growth in imports from other sources. As a result, the Big Three's share of imports of cotton textile products fell from 39 percent in 1980 to 32 percent in 1984; it had peaked in 1977 at 47 percent (see Figure 4). "Other Countries" (that is, not including the Big Three, Japan, or Europe) accounted for 65 percent of the increase in cotton textile imports between 1980 and 1984.

The Big Three's share of imports of man-made fiber textile products fell from its 1980 peak of 50 percent to 39 percent in 1984 (see Figure 5). Undoubtedly aided by the strength of the dollar, imports from Europe, which have never been restrained by quotas, more than tripled between 1980 and 1984, while imports from other countries (excluding Japan) increased by 150 percent.

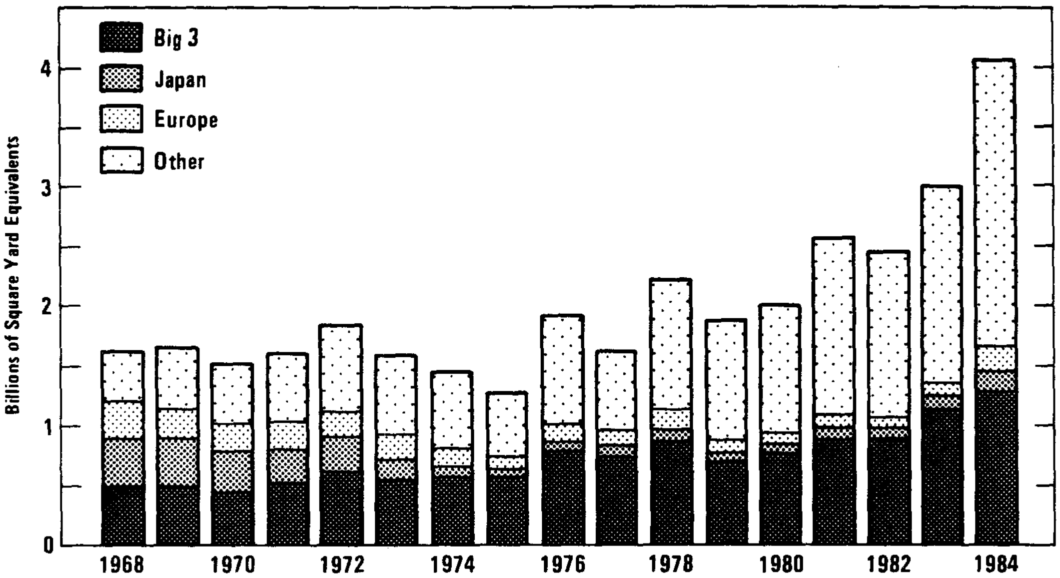
TABLE 2. APPAREL IMPORTS BY COUNTRY
(In millions of equivalent square yards)

Country	Cotton			Man-Made Fibers		
	1973	1980	1984	1973	1980	1984
Big Three	294.6	508.3	664.0	876.5	1,252.7	1,727.9
Other	154.3	495.8	1,069.2	704.7	533.9	1,097.7
Total	448.9	1,004.1	1,733.2	1,581.2	1,786.6	2,825.6

SOURCES: Congressional Budget Office based on data from the International Trade Commission.

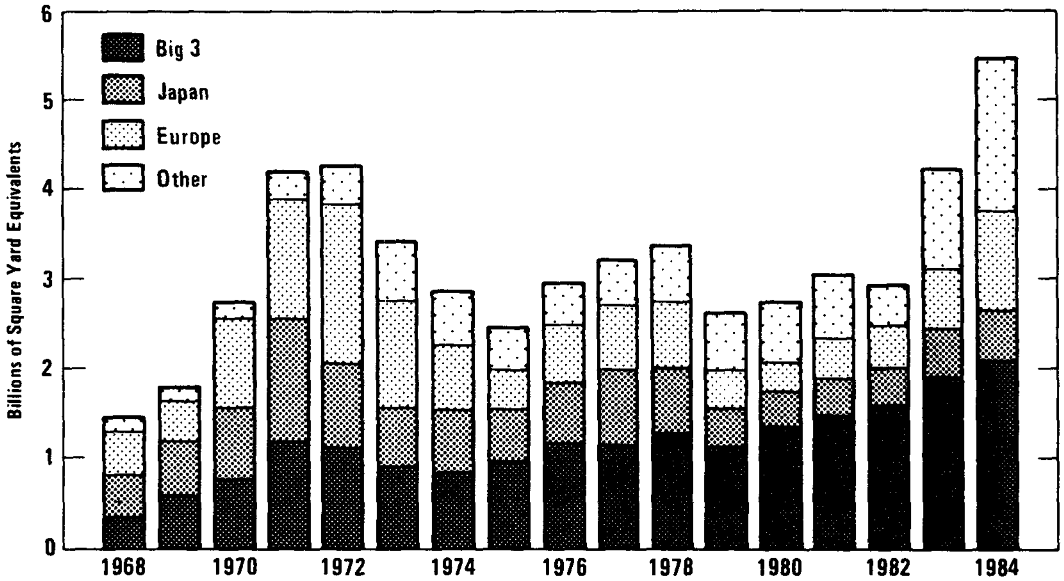
NOTE: The Big Three countries are Hong Kong, Korea, and Taiwan. "Other Countries" do not include the Big Three, Japan, and Europe.

Figure 4.
Imports of Cotton Textile Products (By Origin)



SOURCE: Congressional Budget Office based on data supplied by the International Trade Commission.

Figure 5.
Imports of Synthetic Textile Products (By Origin)



SOURCE: Congressional Budget Office based on data supplied by the International Trade Commission.

During the 1980s, there was also a shift in the composition of imports toward textiles and away from apparel. Since most developing countries are relatively more efficient in producing apparel than other textile products, the disparity in growth rates suggests that the quotas restrained apparel imports during this period.

Finally, during the 1980s, imports of apparel of ramie, linen, and silk have gone from less than 1 percent of imports to 10 percent in 1985. These fibers were not covered by the MFA, and their rapid growth undoubtedly indicates that the negotiated quotas are restricting imports of products of cotton, synthetic fibers, and wool. Since ramie, linen, and silk products are substitutes for the restrained products, their growth has limited the impact of the quotas on domestic producers.

THE EFFECT OF THE MFA ON THE DOMESTIC INDUSTRY

Throughout the 1970s, the MFA's quotas on textile and apparel products apparently did not substantially reduce the supply of foreign textile products, and therefore did little to aid the domestic industry. Clearly, the restraints limited imports of some products and they limited total imports from some countries as well. There was, however, a sufficient number of unconstrained products and countries to mitigate the effectiveness of the quotas. In the 1980s, despite the more rapid rate of increase in imports, the restraint agreements probably provided more protection. As a result, domestic output and prices were somewhat higher than they would have been without the MFA. Nevertheless, the MFA did not provide the industries with sufficient protection to enable producers to increase their output or prices above what they had been in the 1970s. Rather, the restraints limited the rate at which the industry contracted.

Prices and Output

The available evidence indicates that overall the MFA had at most a small impact on the prices of domestically produced textile and apparel products. In the first place, the effect of the MFA on the prices of imported textile and apparel products was not very large. Using inter-country comparisons, one analysis concluded that between 1968 and 1978, the quotas may have raised the prices of imported clothing by 5 percent to 10 percent during periods of strong demand.[20] An econometric study found, however, that

20. See Keesing and Wolf, *Textile Quotas Against Developing Countries*, pp. 105-107.

in only 3 of 19 apparel products did the MFA have a positive impact on the prices of imports through 1979. 21/

An increase in the price of imports will only stimulate demand for domestic substitutes if buyers switch their purchases in response to higher import prices. Domestic textiles and apparel are not, however, always perfect substitutes for foreign imports. There are significant differences in the quality of materials, sensitivity to fashion trends, and the speed at which producers can respond to customer orders. In addition, imports of both textiles and apparel when measured in value were not much above 10 percent of the domestic market during most of the 1970s. Even if quotas did have a positive impact on import prices, quotas could be expected to have little effect on the prices of domestically produced items--and that is precisely what happened.

Between 1975 and 1984, the real prices of apparel and textile products, as measured by the producer price index and adjusted by the GNP deflator, each declined at about 2 percent per year (see Figure 6). The decline in prices was relatively steady, and was at approximately the same rate at which it had been between 1966 and 1975. A sharp increase in textile prices, however, took place in 1973 and 1974, which corresponded to the fall in textile imports. As previously noted, this decline in imports was largely independent of the MFA. Moreover, the increase in the price of oil (an input into the production of synthetic fibers) contributed to the higher prices. The U.S. controls on oil prices gave domestic producers an advantage vis-a-vis foreign producers. This advantage disappeared when domestic oil prices were decontrolled in 1981.

Domestic output of textile products (including both textiles and apparel) increased at an average annual rate of 0.6 percent between 1972 and 1980. Although the restraints were most effective with respect to cotton, domestic production of cotton textile products nevertheless fell at an average annual rate of 3 percent during the period--approximately the same rate at which it had fallen during the previous five years. As imports declined somewhat, domestic production of synthetic textile products increased at a 2.3 percent annual rate during the period.

Between 1980 and 1984, total domestic production fell at an average annual rate of 1.3 percent; production of domestic cotton textile products

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21. See Joseph Pelzman, "The Economic Costs of the Multifiber Arrangement" (Contract No. B91C36079), Office of Foreign Economic Research, Bureau of International Labor Affairs, Department of Labor, October 12, 1983.